

Message Text

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PASS ASSISTANT SECRETARY KATZ

FOL RPT LA PAZ 02788 SENT ACTION SECSTATE
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QUOTE: CONFIDENTIAL LA PAZ 2788

E.O. 11652: GDS
TAGS: EMIN, BL
SUBJECT: BOLIVIAN REQUEST FOR POSTPONEMENT OF GSA TIN SALES

REF: STATE 84659

1. IN RESPONSE TO OUR OFFER TO CONSULT ON IMPLEMENTATION OF GSA TIN SALES SO AS TO SAFEGUARD THE INTERESTS OF BOLIVIA, AS INDICATED IN THE PRESIDENT'S MARCH 6 LETTER TO BANZER, AND MY MARCH 30 CONVERSATION WITH HIM, THE GOB HAS ASKED THAT THE US ANNOUNCE THAT SALES UNDER NEW AUTHORITY WILL NOT BEGIN UNTIL 1979. THE GOB HAS ALSO ASKED OUR SUPPORT FOR REVISION OF THE INTERNATIONAL TIN COUNCIL'S (ITC) PRICE SCALE.

2. MINISTER OF MINES ERNESTO CAMACHO CALLED ME IN APRIL 6 TO MAKE THESE REQUESTS ON BEHALF OF PRESIDENT BANZER AND THE CONFIDENTIAL

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CABINET. CAMACHO SAID AMBASSADOR ITURRALDE WOULD ALSO MAKE THE SAME DEMARCHE IN WASHINGTON. CAMACHO STRESSED THAT THE CONTINUING SLIDE IN THE TIN PRICE WAS DESTROYING BOLIVIA'S ECONOMIC PROSPECTS FOR THIS CRITICAL YEAR IN BOLIVIA'S HISTORY. HE SAID DEFINITIVE ACTION WAS NEEDED TO HALT THE SLIDE IN THE PRICE. THE GOB WAS REQUESTING THREE ACTIONS OF THE US GOVERNMENT IN LIGHT OF ITS RECOGNITION FOR BOLIVIA'S ECONOMIC

PROBLEM AND SUPPORT FOR BOLIVIA'S RETURN TO DEMOCRATIC GOVERNMENT.

A. THAT GSA SALES BE POSTPONED UNTIL 1979 (CALENDAR YEAR).

B. THAT THE USG SUPPORT AN INCREASE IN THE ITC PRICE SCALE AT THE APRIL 11 MEETING.

C. THAT THE USG SUPPORT DEVELOPMENT OF A MORE AUTOMATIC MECHANISM FOR PERIODICALLY ADJUSTING THE ITC'S PRICE SCALE BASED ON PRODUCTION COSTS, INFLATION AND OTHER FACTORS.

3. I GAVE CAMACHO THE BAD NEWS ON POINT B, PER REFTEL. HE WAS CRESTFALLEN AND ASKED RHETORICALLY WHY US POLITICAL SUPPORT CONTINUED TO BE COMBINED WITH ACTIONS DETRIMENTAL TO BOLIVIA'S PROGRESS.

4. I TOLD CAMACHO THAT I PERSONALLY HAD TWO QUESTIONS ABOUT THE GOB REQUEST. FIRST, WAS IT REASONABLE OR NECESSARY FOR BOLIVIA TO REQUEST NO GSA SALES IN 1978, EVEN IF SAY, THE PRICE WENT TO \$6; WAS IT NOT SUFFICIENT FOR BOLIVIA TO HAVE SOME UNDERSTANDING REGARDING GSA SALES WITH RELATION TO PRICE OR SOME OTHER DEFINITION OF MARKET CONDITIONS? SECOND, WAS A MERE POSTPONEMENT OF GSA SALES LIKELY TO HAVE THE CLARIFYING EFFECT ON THE MARKET WHICH WAS NEEDED TO SUSTAIN THE TIN PRICE--THE MAIN POINT FOR BOLIVIA? ON THE SECOND QUESTION, I SAID,

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UNCERTAINTY WAS THE MOST BEARISH FACTOR IN THE MARKET AND MERE POSTPONEMENT OF DECISIONS ON GSA SALES WOULD NOT ENTIRELY CHANGE THIS SITUATION. THEREFORE, I THOUGHT AN ANNOUNCEMENT OF A STARTING DATE FOR GSA SALES, WHETHER JANUARY '79 OR WHATEVER, SHOULD BE COMBINED WITH AN INDICATION OF WHAT GSA'S TENTATIVE PLANS WERE FOR SALES FROM THAT TIME ON.

6. ON THE FIRST QUESTION, CAMACHO SAID THE GOB DID NOT FORESEE ANY NEED FOR A PRICE QUALIFICATION IN ITS REQUEST FOR POSTPONEMENT OF GSA SALES, SINCE THE LEVEL OF SUCH A PRICE WOULD BE A TOTALLY THEORETICAL POSSIBILITY IN THE CURRENT BEARISH MARKET. ON THE SECOND POINT, CAMACHO SAID THE GOB THOUGHT ANNOUNCEMENT OF POSTPONEMENT OF GSA SALES TO JANUARY '79 WOULD BE DRAMATIC AND DEFINITE ENOUGH TO HALT THE PRICE SLIDE, BUT HE PERSONALLY COULD SEE SOME BENEFIT IN COMBINING THIS WITH CLARIFICATION OF PLANS NAR '79 AND BEYOND--BUT ONLY IF THIS COULD BE DONE QUICKLY. OTHERWISE, IT WOULD BE BEST TO ANNOUNCE '78 AND '79 AND-BEYOND PLANS IN TWO STAGES. SPEED WAS CRITICAL TO REVERSE A VERY NEGATIVE MARKET PSYCHOLOGY AND A PRICE RAPIDLY FALLING BELOW PRODUCTION COSTS OF SOME MAJOR BOLIVIAN MINES.

7. COMMENT: IF I AM ACCURATELY INFORMED OF THE STATUS OF CONGRESSIONAL CONSIDERATION OF NEW AUTHORITY FOR TIN SALES, GSA SALES BEFORE SEPTEMBER ARE UNLIKELY IN ANY EVENT. IF SO, THE BOLIVIANS ARE ASKING FOR A DELAY OF UP TO FOUR MONTHS IN ACTUAL US SALES. I FIND IT HARD TO BELIEVE THAT BEGINNING TIN SALES IN SEPTEMBER AS OPPOSED TO JANUARY IS CRITICAL TO THE US INTEREST IN AN ORDERLY TIN MARKET. BUT OUR RESPONSIVENESS TO BOLIVIA'S REQUEST IS INDEED VERY IMPORTANT TO THE WELFARE AND DEMOCRATIC PROGRESS OF A SMALL RAW-MATERIALS-DEPENDENT COUNTRY. OUR RESPONSIVENESS WILL BE JUDGED HERE BY ALL BOLIVIANS--NOT JUST BANZER AND THE GENERALS--AS A FINAL TEST OF OUR WILLINGNESS TO SUPPORT THEIR PROGRESS TOWARD DEMOCRATIC GOVERNMENT THIS SUMMER AND ECONOMIC STABILITY AS AN ESSENTIAL UNDERPINNING OF THAT PROGRESS.

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8. THE BOLIVIAN REQUEST OFFERS US AN EARLY AND DRAMATIC OPPORTUNITY TO VALIDATE THE PRESIDENT'S ASSURANCES IN CARACAS REGARDING OUR SUPPORT FOR THE ASPIRATIONS OF POOR RAW-MATERIALS-EXPORTING NATIONS.

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